



State of Vermont
Public Service Board

MEMORANDUM

To: The Hon. Deborah Markowitz, Secretary of State
The Hon. Ann Cummings, Chair - Senate Finance
The Hon. Ginny Lyons, Chair - Senate Natural Resources & Energy
The Hon. Warren Kitzmiller, Chair - House Commerce
The Hon. Robert Dostis, Chair - House Natural Resources & Energy
Donald Milne, Clerk of the House
David Gibson, Secretary of the Senate
Bill Russell, Legislative Council
Steve Klein, Joint Fiscal Committee
Paul Donovan, Department of Libraries

From: James Volz, Chairman

Re: 2005 Energy Efficiency Utility Program Revenues and Expenditures

Date: January 31, 2007

In accordance with 30 V.S.A. § 209,¹ the Public Service Board ("Board") is providing the Legislature with a final report on the Energy Efficiency Utility Fund ("Fund") for activity through December 31, 2005, and information summarizing the results of the activities paid for by the Fund during the year 2005. These energy efficiency services were provided primarily by the Energy Efficiency Utility ("EEU"), which operates under the name "Efficiency Vermont";² however, the City of Burlington Electric Department ("BED") provided many of these services in its service territory.³

¹ The statute reads as follows: "The board will annually provide the legislature with a report detailing the revenues collected and the expenditures made for energy efficiency programs under this section." 30 V.S.A. § 209(d)(3).

² Vermont Energy Investment Corporation ("VEIC"), a non-profit corporation, serves as the EEU under a contract with the Board. The Board selected VEIC in 2000 through a competitive solicitation.

³ When the Board first created the EEU, it authorized BED to deliver many of the same services in its own service territory that the EEU provided throughout the rest of the state (for simplicity's sake, this report refers to these services as "EEU services").

As these reports show, both the EEU and BED are achieving better results than we had expected; they are providing real benefits to the state's electricity consumers by reducing individual customers' electrical energy consumption and by reducing statewide electrical demand.

While the statute does not specifically require the Board to report on the activities of the EEU, I have included a report that summarizes the EEU's key accomplishments in 2005.⁴ As stated in this report, the investments made by the EEU in 2005 will save Vermont a net present value of \$7,100,000 over the 12-year average lifetime of the investments (\$37,100,000 in net present value benefits minus \$30,000,000 in 2005 investments). Business customers received approximately 62 percent of the benefits of the EEU's services in 2005, while residential customers received approximately 38 percent of the benefits. The kilowatt-hours saved by the EEU cost Vermont electric consumers approximately 3.6 cents per kilowatt-hour, which is approximately 38 percent of what utilities would paid for a comparable electric supply in 2005. For more information about the EEU's accomplishments, see the attached report written by Efficiency Vermont entitled "Efficiency Vermont: 2005 Annual Report Summary" (Tab 1).

Also attached are an excerpt from BED's 2005 Energy Efficiency Annual Report and a page entitled "Burlington Electric Total Resource Benefits" (both of which were prepared by BED) that summarize the results of BED's energy efficiency activities that were paid for by the Fund (Tab 2).⁵ BED's calculations show that the investments in EEU services made by BED in 2005 will save Vermont a net present value of \$8,400,000 over the 15-year average lifetime of the investments (\$10,206,000 in net present value benefits minus \$1,806,000 in 2005 investments).⁶ Business customers will receive approximately 71 percent of these savings, while residential customers will receive approximately 29 percent of the savings. The kilowatt-hours saved by BED's EEU services cost BED's ratepayers approximately 1.8 cents per kilowatt-hour.

Batchelder Associates, PC, the company under contract to the Board as the Fiscal Agent⁷ for the Fund, engaged the firm G.W. Osterman & Co, PC, to perform an audit of the Fund. More detailed information on the Fund's revenues and expenditures is provided in

⁴The kilowatt-hour savings and benefit figures included in the EEU's 2005 Annual Report have been verified by the Vermont Department of Public Service as part of its evaluation activities.

⁵BED's Annual Report provides information on all of BED's energy efficiency activities, including the EEU services that are paid for by the Fund, and other activities that are paid for by BED customers through other funding mechanisms. The benefit and expenditure figures included in this report are only those attributable to BED's EEU services.

⁶Unlike the EEU's kilowatt-hour savings and benefit figures, BED's kilowatt-hour savings and benefit figures have not been independently verified.

⁷The Fiscal Agent provides the accounting services necessary to administer the Fund. These services include receiving funds collected by Vermont electric distribution companies, disbursing funds to pay approved invoices, managing any cash balances in the Fund, and reporting on Fund financial activities.

the attached independent audit of the Fund for the year 2005 (Tab 3). A brief summary of the Fund follows.

Total revenues collected by the Fund during calendar year 2005 were \$18,523,908 (including both revenues collected via the energy efficiency charge on electric customers' bills and interest income).⁸ Total expenditures from the Fund during calendar year 2005 were \$17,936,903. Revenues exceeded expenditures primarily because the Department of Public Service spent less than it had budgeted in 2005 for EEU-related evaluation activities.⁹ It is expected that revenues and expenditures will be closely matched over the contract's life. Expenses paid by the Fund included:

- energy efficiency services provided by the EEU;
- EEU services provided by BED; and
- administrative costs such as the EEU Contract Administrator,¹⁰ the EEU Fiscal Agent, and EEU monitoring and evaluation activities undertaken by the Department of Public Service.

These reports show (1) the Fund is being appropriately managed; and (2) the energy savings achieved by the EEU and BED in the past year benefitted all Vermonters, whether or not they participated in the EEU's or BED's programs.

Please keep in mind that, with this report, we are not reporting on all energy efficiency initiatives that are being implemented throughout the state; instead, this report is limited to funds received through the energy efficiency charge as authorized under 30 V.S.A. § 209(d)(3) and the statewide efficiency services delivered by the EEU and BED.

I am pleased to provide the legislature with this summary of EEU energy efficiency services delivered during 2005. Additional information about the EEU or its contractor is available, including:

- the Board's September 30, 1999, Order in Docket 5980 which created the EEU;
- the Independent Audit of Vermont Energy Efficiency Utility Energy and Capacity Savings for 2000 and 2001;

⁸The revenue and expenditure figures in this paragraph are presented on an accrual basis. The Fund's cash balance as of December 31, 2005, was \$1,474,771.

⁹Some of the Department of Public Service's planned evaluation activities concluded in 2006.

¹⁰The EEU Contract Administrator assists the Board with the administration of the Board's contract with the EEU, including making recommendations on whether the EEU has achieved its contractually-specified performance goals. The current EEU Contract Administrator is Michael Wickenden, who was selected via a competitive bidding process in 2002.

- the Independent Audit of Vermont Energy Efficiency Utility Energy and Capacity Savings for 2002, 2003, and 2004;
- the EEU's 2000, 2001, 2002, 2003, 2004, and 2005 Annual Reports;
- the 2000, 2001, 2002, 2003, 2004, and 2005 independent audits of the EEU Fund;
- the Board's contract with VEIC (the contractor serving as the EEU);
- the fiscal year 2001, 2002, 2003, 2004, 2005, and 2006 independent audits of VEIC; and
- VEIC's fiscal year 2001, 2002, 2003, 2004, and 2005 IRS Form 990: Return of Organization Exempt From Income Tax.

As always, please don't hesitate to contact me at the Public Service Board if you have any questions.

Encl.

cc: Department of Public Service
Energy Efficiency Utility
City of Burlington Electric Department
EEU Contract Administrator

2006 AUG 23 A 9:08

Efficiency Vermont 2005 Annual Report Summary

Public awareness of energy issues dramatically increased in 2005. Vermonters are growing increasingly conscious of the difficult choices we face in meeting the state's future energy needs. The deliberation and decision regarding construction of the new VELCO transmission line in northwest Vermont, the future of the Vermont Yankee nuclear power plant, the siting of wind turbines, and the upcoming loss of assured power supply from Hydro Quebec all became issues of widespread interest and concern in 2005. Then in the fall hurricanes Katrina and Rita illustrated our nation's energy vulnerability. Oil and natural gas prices skyrocketed, the possibility of winter shortages emerged and public focus on energy issues increased even further.

In these global and local contexts, more and more Vermonters recognized the value of energy efficiency as an attractive and cost-effective resource for meeting our electricity needs, both as a state and as individuals. This translated into greater appreciation for Vermont's energy efficiency efforts and increased demand for Efficiency Vermont services.

From a contractual perspective, 2005 was a significant year for Efficiency Vermont in several respects. While prior years represented a multiyear ramp-up of budgets and savings for Efficiency Vermont, 2005 was a year of building depth and maturity in service and initiative offerings. Because staffing and service levels remained approximately level, we were able to focus considerable efforts on increasing the strength and efficiency of our infrastructure to deliver energy savings in the future.

2005 was also the last year of the initial six-year Efficiency Vermont implementation contract delivered by Vermont Energy Investment Corporation. After a highly competitive solicitation and bidding process in 2005, Vermont Energy Investment Corporation is proud to have been selected by the Vermont Public Service Board as the contractor for the next period 2006 – 2008.

In 2005, Efficiency Vermont underwent heightened scrutiny regarding our claimed savings and the other benefits of Efficiency Vermont.

- The savings review and adjustment process, employing new techniques and additional expertise was the most rigorous that it has been since the inception of Efficiency Vermont in 2000.
- Independent experts under contract to the DPS conducted major evaluations of Efficiency Vermont's services and impact. Among the findings were:
 - Efficiency Vermont was found to be a "very well managed organization," with a "knowledgeable, capable" staff and "excellent design of administrative and information technology systems."
 - Efficiency Vermont achieved high levels of awareness for its programs.
 - Participation among appliance retailers and outlets that carry compact fluorescent light bulbs was nearly universal. Vermont recorded the highest

279 A 83 24 10 level of compact fluorescent bulb sales per household of any state for which sales data was available.

- In the residential new construction market, the portion of single-family new homes that enrolled in the program was very high compared to similar programs elsewhere. The number of builders with projects enrolled and the number of builders participating for the first time increased steadily and the depth and quality of energy efficiency measures in participating homes increased significantly.
 - Efficiency Vermont's market strategies for business markets proved to be appropriate, helping to achieve broad and deep participation.
 - Business customers' assessment of the quality, timeliness, and professionalism of Efficiency Vermont services was almost universally excellent.
 - Business customers value Efficiency Vermont's technical services and reported that those services were responsible for much of the overall program effect on measure implementation.
 - Contractors and suppliers both report that Efficiency Vermont has influenced them to increase the frequency with which they recommend, specify and sell energy-efficient equipment.
- In 2005, as required by statute (30 V.S.A. §209(e)(12)), the results of a triennial independent audit of savings and cost-effectiveness of Efficiency Vermont were submitted to the Vermont Legislature. This audit reported that:
 - The Efficiency Vermont estimates of Annual Energy and Capacity Savings, as verified and adjusted by the Department of Public Service, were reliable and unbiased estimates of program savings.
 - VT data collection and analysis procedures were appropriate and included effective quality assurance checks. The Department of Public Service developed effective procedures for verifying Efficiency Vermont savings estimates.

In addition, Efficiency Vermont's total expenditures were 3.5 cents per kWh for energy efficiency resources that reduce Vermont's annual need for electricity generation by 57,000 MWh, 9.0 MW at summer peak and 8.8 MW at winter peak. This cost per kWh does not include participating customers' additional costs and savings, such as customer contributions to measure costs, and customer costs or savings associated with fossil fuels, water and/or building operation and maintenance. Including these other costs and savings brings the net resource cost of saved electric energy to 3.6 cents per kWh. To supply the same energy and capacity over the average 12-year life of efficiency measures installed in 2005, Vermont utilities would have to spend, based on current values of avoided costs, 9.6 cents per kWh.

As a result of these analyses and evaluations, Vermonters can have even greater confidence in the savings that Efficiency Vermont is delivering.

Energy savings from measures installed in 2005 are 10% higher than in 2004. Summer peak demand savings are estimated to have increased from 7.8 MW in 2004 to 9.0 MW in 2005, an increase of 15%.

Stimulating Vermont's Economy: Net Lifetime Economic Value for 2005

Benefits	<u>\$37,100,000</u>	Lifetime Economic Value of Efficiency Investments
Minus Costs	<u>\$15,100,000</u>	Costs paid for by investments through Efficiency Vermont
	<u>\$14,900,000</u>	Costs paid for by participant and third-party investments
	<u>\$30,000,000</u>	Total Costs
Equals Net Benefits	<u>\$7,100,000</u>	Net Lifetime Economic Value to Vermont

While Efficiency Vermont spending increased only slightly in 2005, savings grew in greater proportion as we increased productivity and efficiency in providing energy efficiency services. We were able to increase our output (energy savings) by 10% with an increase of input (costs) of only 8%. We are proud of our results measured by this increase in "yield."

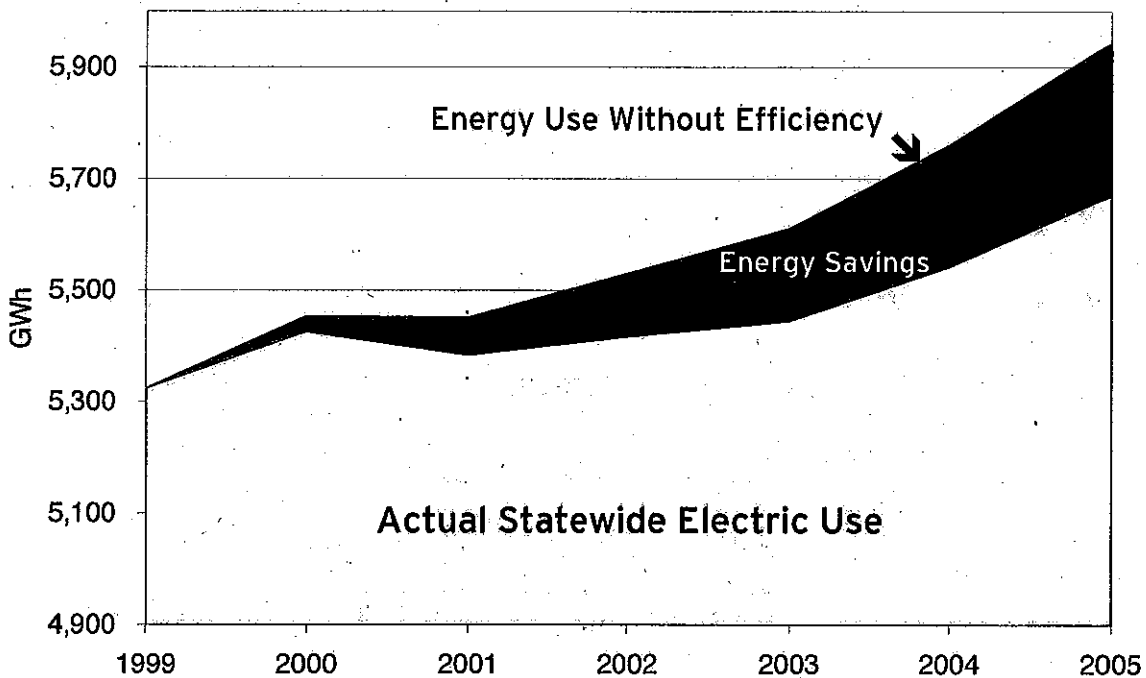
Efficiency Vermont Costs and MWh Savings: 2000-2005

Year	Efficiency Vermont Costs	Incremental Annual MWh Savings
2000	\$5,598,459	23,540
2001	\$8,802,654	37,489
2002	\$10,982,382	40,557
2003	\$12,957,903	51,216
2004	\$13,992,835	51,863
2005	\$15,095,564	57,055

2005 concluded the three-year contract period in which the Efficiency Vermont contractor would be measured with respect to a number of specified "performance indicators." These indicators were selected to provide direction to Efficiency Vermont in balancing multiple objectives. The levels of performance associated with them were set very high – representing a level defined as "exemplary" performance. At the time of this report, the verification process for these indicators is not yet complete, but almost all of them are expected to be met or exceeded.

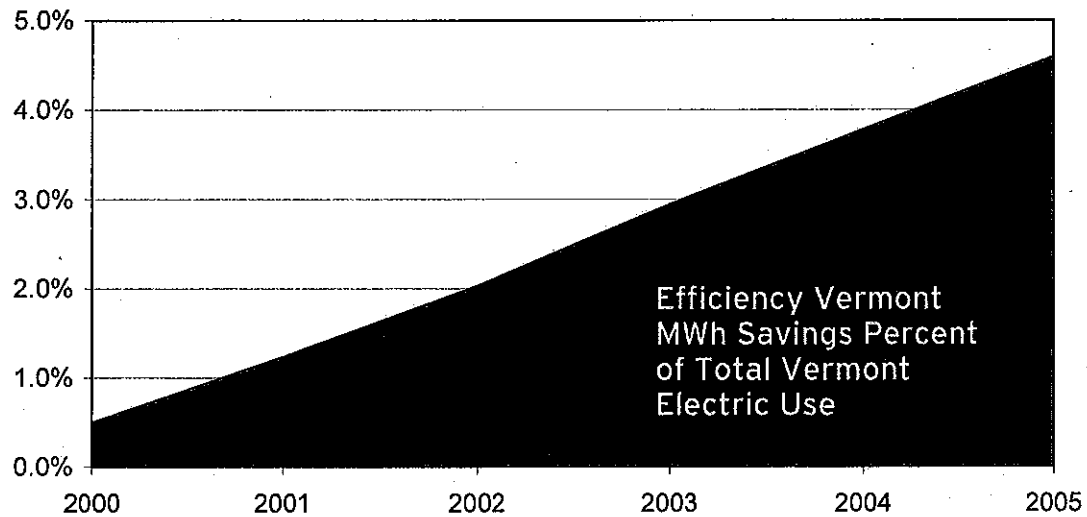
Efficiency Vermont's savings have had a considerable impact on statewide electrical load growth. It is estimated that without the savings attributed to Efficiency Vermont, statewide electricity requirements would have grown at an average rate of 1.8%. Efficiency Vermont savings cut this rate by half - to just 0.9%.

Impact of Efficiency Vermont on Growth In Statewide Annual Electrical Use



Over the six-year history of Efficiency Vermont, cumulative savings have risen dramatically. By the close of 2005, the portion of Vermont's electrical energy needs being met through verified savings delivered by Efficiency Vermont had grown to 4%. This is a significant portion of our state's resource needs. Indeed, in terms of relative contribution to total 2005 electrical energy needs, Efficiency Vermont was the equivalent of Vermont's 5th largest utility.

Efficiency Vermont Contribution to Vermont Statewide Energy Requirements



The bottom line? Energy efficiency has been increasingly recognized as our least-cost energy resource, as well as reliable, good for economic development and good for our environment. Energy efficiency is now a major contributor to meeting our energy needs and has the demonstrated ability to play an even larger role as part of our resource mix for the future.

VERMONT PUBLIC
SERVICE BOARD

2006 MAY -1 P 1:32



Burlington Electric Department 2005 Energy Efficiency Annual Report



Overview of EEU Services Results

Overall in 2005, the EEU services that BED implemented in partnership with Efficiency Vermont exceeded annualized mWh targets by 45%. BED projected 2,569 annualized mWh savings and achieved 4,664 annualized mWh. This is largely due to the completion of several large commercial projects that had been in the planning stages in prior years. BED spent \$830,031 in 2005, which is about .05% less than the projected budget of \$837,185. In total, BED's EEU Services implementation saved 4,664 mWh of energy annually from installed measures that will result in 68,484 mWh savings over the equipment's useful life.

BED's cost per annualized mWh saved for 2005 was 45% lower than estimated. BED estimated \$326 per annualized mWh saved, but achieved \$178 per annualized mWh saved. BED's administrative costs as a percentage of total program costs remained consistent with historical performance: about 23% of the budget was used to defray program operation costs including marketing efforts.

In the first six years of the Energy Efficiency Utility both organizations have exceeded savings estimates and have done so at a lower cost per mWh than anticipated. Energy efficiency is now being delivered at a total cost of about 3 to 4 cents per kilowatt-hour statewide. When compared with other energy sources, energy efficiency remains the state's best bargain for future supply. Avoiding electric generation also avoids the associated air emissions and other environmental impacts that impact Vermont and the region.

2005 brings to a close the end of a three-year program cycle. As part of BED's bilateral agreement with the Department of Public Service (DPS) to implement certain Core Programs, BED and the DPS established performance standards for the 2003-2005 program cycle. The following table describes the performance standards and the results through the 2003-2005 program cycle.



2005 January - December Business and Residential EEU Programs	Actual 2004	Actual 2005	Projected 2005 (2)	Projected 2006	Actual Program to Date (3)
# of Participants with installations (4)	1280 a	202	1,478		4,822 b
# of Participants with audit/analysis (5)	204 a		N/A		N/A
# of audits/analyses w/ pending action (6)	30 a		N/A		N/A
# of audits/analyses with installations (7)	174 a		N/A		N/A
Program Costs					
BED Costs (8)	\$848,298 a	\$830,031	\$837,183	\$897,185	\$11,919,620
Administration (9)	\$210,270 a	\$192,751	N/A	\$0	\$2,274,015
General (10)	\$100,094	\$81,648	N/A	N/A	\$1,786,821
Implementation (11)	\$30,647	\$56,409	N/A	N/A	\$166,555
Program Planning (12)	\$4,165	\$2,337	N/A	N/A	\$27,199
Marketing (13)	\$17,294	\$37,617	N/A	N/A	\$180,675
IT Development (14)	\$58,070	\$14,341	N/A	N/A	\$105,943
Implementation Costs (15)	\$325,562 a	\$342,507	N/A	\$0	\$2,742,249
Services to Participants (16)	\$318,782	\$342,507	N/A	N/A	\$2,730,488
Services to Trade Allies (17)	\$6,780	\$0	N/A	N/A	\$11,761
Incentive Costs (18)	\$312,466	\$294,773	N/A	\$0	\$4,303,356
Incentives to Participants (19)	\$311,675	\$293,415	N/A	N/A	\$4,288,545
Incentives to Trade Allies (20)	\$791	\$1,358	N/A	N/A	\$14,811
Total Participant Costs (21)	\$418,266	\$970,438	N/A	N/A	\$13,372,669
Total Third Party Costs (22)	N/A	N/A	N/A	N/A	N/A
Evaluation Costs (23)	\$20,533	\$5,904	N/A	N/A	N/A
Total Program Costs (24)	\$438,800	\$976,342	N/A	N/A	\$13,378,579
Benefits					
Total Measure Costs (25)	\$1,266,584 a	\$1,880,469	N/A	N/A	\$25,292,289
Total Cost of Services (26)	\$743,828 a	\$1,312,945	N/A	N/A	N/A
Annualized mWh (27)					
Lifetime mWh (28)	45,578	58,484	N/A	N/A	922,114
Winter Coincident Peak kW (29)	563	551	N/A	N/A	9,542
Summer Coincident Peak kW (30)	479	534	N/A	N/A	5,278
Annualized mWh/Participant (31)	2	3	2	2	12
Weighted Lifetime (32)	14	13	N/A	N/A	16

End Use	# of Participants (33)	Utility mWh Saved (35)	Customer mWh Saved (36)	Annual Lifetime mWh (34)	Utility Winter cp-kW Saved (37)	Utility Summer cp-kW Saved (38)	Other fuel MMBtu Saved (39)	Water ccf Saved (40)
Air Conditioning Efficiency	235	709.77	628.01	14,353.65	26.51	68.00	0.00	0.00
Cooking and Laundry	262	66.84	59.67	935.56	18.45	13.51	42.40	1,536.68
Hot Water	17	3.73	3.19	29.61	0.65	0.45	3.23	38.40
Fuel Switch	53	131.82	179.42	1,811.38	76.85	48.70	-887.63	0.00
Industrial Process Efficiency	2	96.19	81.81	1,442.79	9.23	12.84	0.00	0.00
Lighting	1,451	1,510.48	1,366.97	18,003.21	247.40	240.21	-464.66	0.00
Motors	17	1,473.17	1,265.88	24,054.83	101.88	131.38	174.00	0.00
Refrigeration	134	236.21	208.23	2,577.55	23.01	3.88	0.00	0.00
Space Heat	17	10.16	9.13	182.94	1.44	3.47	0.00	0.00
Fuel Switch	21	155.31	144.35	1,777.96	33.18	0.07	-505.96	0.00
Ventilation Only	20	208.06	187.57	2,271.99	1.78	2.19	0.00	0.00
Water Conservation	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	11	17.83	15.93	421.97	8.13	7.91	64.06	0.00
Fuel Switch	1	44.32	37.68	620.43	2.86	2.04	-27.04	0.00
Total		4,563.85	4,187.83	68,483.86	557.38	534.35	-1,601.60	1,575.08

n/a = not applicable

N/A = Data/Information is Not Available

a = Corrected Value

b = Current Unique Participants for the lifetime of the program are unavailable due to program restructuring, information expected to be available for 2007



Burlington Electric Total Resource Benefits EEU Programs

	2005	Lifetime (Present Value)
Average Rates \$/kWh	\$0.1024	
<i>Business</i>	\$0.1025	
<i>Residential</i>	\$0.1022	

MWh saved	4,642	68,550
<i>Business</i>	3,520	57,013
<i>Residential</i>	1,122	11,538

Avoided Cost of Electricity	\$475,444	\$6,710,881
<i>Business</i>	\$360,799	\$5,568,587
<i>Residential</i>	\$114,645	\$1,142,295

1.) Annualized Water Savings \$	\$12,711	\$169,183
a.) <i>Business</i>	\$0	\$0
a.) <i>Residential</i>	\$12,711	\$169,183

1.) Other Fuel MMBtu Savings \$	-\$12,054	-\$99,165
a.) <i>Business</i>	-\$76	\$19,060
a.) <i>Residential</i>	-\$11,978	-\$118,225

2.) Reported Capacity Cost Savings	\$284,473	\$3,425,280
a.) <i>Business</i>	\$108,012	\$1,667,065
a.) <i>Residential</i>	\$176,461	\$1,758,215

		2005	
Annualized Energy Savings (kWh): Total		Meter	Generation
Winter on Peak		866,174	951,810
	<i>Business</i>	530,099	604,531
	<i>Residential</i>	336,076	347,279
Winter off Peak		294,414	326,250
	<i>Business</i>	201,054	228,960
	<i>Residential</i>	93,360	97,290
Summer On Peak		1,657,119	1,850,644
	<i>Business</i>	1,250,535	1,429,579
	<i>Residential</i>	406,584	421,065
Summer off Peak		1,383,550	1,550,067
	<i>Business</i>	1,097,817	1,254,746
	<i>Residential</i>	285,734	295,322
Coincident Demand Savings			
Winter		518	555
	<i>Business</i>	244	275
	<i>Residential</i>	273	280
Spring-Fall		488	517
	<i>Business</i>	244	271
	<i>Residential</i>	245	246
Summer		492	538
	<i>Business</i>	277	311
	<i>Residential</i>	215	227

		2005	
		Gross	Net Lifetime Savings
Annualized Water Savings ccf		1,575	21,859
	<i>Business</i>	-	-
	<i>Residential</i>	1,575	21,859
a.) Other Fuel MMBtu Savings (Increase)		-1,626	-15,047
	<i>Business</i>	(9)	1,425
	<i>Residential</i>	(1,617)	(16,471)

a.) Burlington DHW fuel type distribution used

1) Cost information from DPS Screening Tool v2005b

2) Includes generic capacity cost savings and coincident peak demand cost savings from the DPS Screening tool v2005b

**VERMONT ENERGY EFFICIENCY
UTILITY FUND
INDEPENDENT AUDITOR'S REPORT**

**For the Years Ended
December 31, 2005 and 2004**

**G.W. Osterman & Co, P.C.
192 S. Main Street, PO Box 793
Barre, Vermont 05641
(802) 479-3667**

VERMONT ENERGY EFFICIENCY
UTILITY FUND

Financial Statements With
Independent Auditors' Report for the Year Ended
December 31, 2005

CONTENTS

	Page Number
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AUDITS OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	3
BALANCE SHEETS	4
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7 - 11

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

Independent Auditors' Report

Vermont Public Service Board
Montpelier, Vermont

We have audited the accompanying balance sheets of the Vermont Energy Efficiency Utility Fund (VEEUF), a special reserve fund of the State of Vermont administered by NECA Services, Inc. (NECA Services), as of December 31, 2005, and the related statements of revenues, expenditures and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year comparative information has been derived from the VEEUF's 2004 financial statements. The 2004 financial statements were audited by other auditors, who expressed an unqualified opinion on them in their report dated May 5, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the VEEUF and do not purport to, and do not, present fairly the financial position of the State of Vermont as of December 31, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VEEUF administered by NECA Services and Batchelder & Associates, PC for the last two months of the fiscal year as of December 31, 2005, and the changes in fund net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2006 on our consideration VEEUF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

G. W. Osterman & Co, PC

November 3, 2006
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDING DECEMBER 31, 2005

This section of the Vermont Energy Efficiency Utility Fund's annual financial report represents our discussion and analysis of the VEEUF's financial performance during the fiscal year that ended on December 31, 2005. It should be read in conjunction with the VEEUF's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The VEEUF unreserved fund balance as of December 31, 2005, was \$1,474,771 versus \$887,766 at December 31, 2004
- The VEEUF's fund balance increased by \$587,005 during the 2005 fiscal year as a result of fund assessments exceeding fund expenditures from electric distribution utilities
- VEEUF actual expenditures for 2005 were 1.38% below budgeted levels due to a lower than anticipated level of programmatic support requests during the current fiscal year

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include **notes** that explain some of the information in the financial statements and provide more detailed data.

Total disbursements to the eight programs comprising the VEEUF increased by approximately 7.3% from the prior year, from \$14,190,235 in 2004 to \$15,231,038 in 2005. As of December 31, 2005, the VEEUF had negative net receivables of \$140,856 consisting primarily of receivables from contributors of \$3,337,229, payable to programs of \$1,981,229, payable to contributors for uncollectibles of \$65,463, accounts payable and accrued expenses of \$1,286,529 and taxes payable of \$144,864. This compares to a net receivable of \$106,934 as of December 31, 2004, which consisted primarily of receivables from contributors of \$2,742,648, payable to programs of \$1,519,544, payable to contributors for uncollectibles of \$59,232, accounts payable and accrued expenses of \$936,848 and taxes payable of \$120,090.

As was the case in prior years, the VEEUF maintained an adequate cash flow and balance of funds to satisfy all obligations.

G.W. Osterman & Co, PC

192 S. Main Street, PO Box 793
Barre, Vermont 05641

Gerald W. Osterman, CPA Tel. 479-3667
Debra U. Burke, CPA Tel. 476-9698

gwosterman@charter.net
duburke@charter.net

**Report on Compliance and on Internal Control over Financial Reporting Based on Audits of
Financial Statements Performed in Accordance with *Government Auditing Standards***

Vermont Public Service Board
Montpelier, Vermont

We have audited the financial statements of the Vermont Energy Efficiency Utility Fund as of and for the year ended December 31, 2005, and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance whether the Vermont Energy Efficiency Utility Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Vermont Energy Efficiency Utility Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we did note a recommendation for improvement that was communicated to management in a separate letter.

This report is intended solely for the information and use of the Fiscal Agent, Contract Administrator, Vermont Public Service Board and State Auditor's Office of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

G. W. Osterman & Co, PC

November 3, 2006
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENT OF FINANCIAL POSITION
December 31, 2005 and 2004

	2005	2004
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,615,627	\$ 780,832
Accounts receivable:		
Receivable from energy distributors	3,336,849	2,742,253
Other receivables (interest)	<u>380</u>	<u>395</u>
Total Current Assets	<u>4,952,856</u>	<u>3,523,480</u>
 TOTAL ASSETS	 <u><u>\$ 4,952,856</u></u>	 <u><u>\$ 3,523,480</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable for energy programs	\$ 1,981,229	\$ 1,519,544
Payable to energy distributors for uncollectibles and overpayments	65,463	59,232
Accounts payable and accrued expenses	1,286,529	936,848
Taxes payable	<u>144,864</u>	<u>120,090</u>
 TOTAL CURRENT LIABILITIES	 3,478,085	 2,635,714
 Fund Balance - Unreserved	 <u>1,474,771</u>	 <u>887,766</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 4,952,856</u></u>	 <u><u>\$ 3,523,480</u></u>

See accountant's report and notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
Year Ended December 31, 2005 and 2004

	2005	2004
REVENUES:		
Assessments (Note 1)	\$ 18,484,115	\$ 14,838,274
Interest income	39,793	21,001
Total Operating Revenues	<u>18,523,908</u>	<u>14,859,275</u>
EXPENSES:		
Energy programs (Note 2)	15,231,038	14,190,235
Administrative costs (Note 4)	2,520,989	1,611,731
Taxes (Note 6)	184,876	149,904
Total Expenditures	<u>17,936,903</u>	<u>15,951,870</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	587,005	(1,092,595)
FUND BALANCE - UNRESERVED, BEGINNING OF YEAR	887,766	1,980,361
FUND BALANCE - UNRESERVED, END OF YEAR	<u>\$ 1,474,771</u>	<u>\$ 887,766</u>

See accountant's report and notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	2005	2004 (Rounded to Thousands)
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Energy Distributors	\$ 17,955,943	\$ 14,828,000
Payments for Energy Programs	(14,769,349)	(14,493,000)
Refunds to Energy Distributors for Uncollectibles and Overpayments	(60,189)	(64,000)
Payments for General Administration	(1,986,092)	(1,023,000)
Payments to Contract Administrator	(133,864)	(131,000)
Payments to Fiscal Agent	(51,346)	(50,000)
Payments for Taxes	(160,101)	(148,000)
Net Cash Used by Operating Activities	<u>795,002</u>	<u>(1,081,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>39,793</u>	<u>21,000</u>
NET DECREASE IN CASH AND EQUIVALENTS	834,795	(1,060,000)
Cash and Cash Equivalents:		
Beginning of Year	<u>780,832</u>	<u>1,840,832</u>
End of Year	<u>\$ 1,615,627</u>	<u>\$ 780,832</u>
Reconciliation of Increase (Decrease) in Fund Balance to Net Cash		
Provided by Operating Activities		
Excess (Deficiency) of Revenues over Expenditures	\$ 587,005	\$ (1,094,000)
Less: Interest Income	(39,793)	(21,000)
Change in Operating Assets and Liabilities:		
Receivables	(594,581)	(69,000)
Payable for Energy Programs	461,685	(302,000)
Payable to Energy Distributors for Uncollectibles and Overpayments	6,231	(5,000)
Accounts Payable and Accrued Expenses	349,681	408,000
Taxes Payable	24,774	2,000
Net Cash Used by Operating Activities	<u>\$ 795,002</u>	<u>\$ (1,081,000)</u>

See accountant's report and notes to financial statements

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies utilized by the Vermont Energy Efficiency Utility Fund (VEEUF), administered by NECA Services, Inc. (NECA Services) through December 31, 2005 and then by Batchelder Associates, PC, in the preparation of the accompanying financial statements are summarized below.

Organization

In 1999, the State of Vermont established the VEEUF to fund ten core statewide energy efficiency programs. These programs include: commercial energy opportunities; commercial emerging markets; commercial and industrial customer credit; dairy farm program; multi-family and single family low-income programs; residential emerging markets; residential new construction; efficient products; and utility payments. In 2003, the programs were condensed into eight programs: business existing facilities; business new construction; customer credit; business initiatives; energy efficiency products; residential new construction; residential existing buildings; and residential initiatives.

Pursuant to 30 V.S.A. §209, the Vermont Public Service Board (VPSB) established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. Currently, there are twenty-one (21) distribution utilities assessing these charges and utilizing the programs.

In March, 2003, the VPSB entered into a contract with NECA Services to retain NECA Services as the fiscal agent of the VEEUF for the period January 1, 2003, through December 31, 2005. The VPSB entered into a new contract with Batchelder Associates, PC for the period January 1, 2006 through December 31, 2008.

The amount to be collected for the year 2005 energy EEC was set by the VPSB in a memorandum of August 1, 2002. In that memorandum, pursuant to the terms of a Memorandum of Understanding in Docket 5980, the Board set the amount to be collected via the EEC for each of the years 2003, 2004 and 2005. Subsequently, the VPSB amended that memorandum in Docket No. 6777 and changed the amount to be collected in 2003.

Special Reserve Fund

The VEEUF is considered a special reserve fund of the State of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Vermont.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

These statements have been prepared on the modified accrual basis in accordance with Governmental Accounting Standards Board (GASB), for the period presented. For the year ended December 31, 2005 the VEEUF had accounting transactions in the unreserved fund balance only. The VEEUF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and amendments. GASB No. 34 as amended establishes standards for financial reporting for state and local governments.

Cash and Cash Equivalents

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to the VEEUF when earned and the investment rate averaged 3.13 percent during the year ended December 31, 2005.

Revenue Recognition

Vermont electrical distribution utilities are required to assess their customers based on usage at a statutory rate. The assessments are then remitted to the VEEUF. It is the VEEUF's policy to recognize all self-assessments received within two months of the fiscal period. Any late remittances will be recognized in a subsequent period or periods.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 2 - DISTRIBUTIONS TO ENERGY PROGRAMS

Distributions to the Vermont Energy Investment Corporation (VEIC) and other qualified providers were made by NECA Services and Batchelder Associates, PC during the year ended December 31, 2005, in accordance with the terms of its contract or as directed by the contract administrator, with concurrence of the Vermont Public Service Board. The VEIC uses the disbursements to fund various programs.

Approximate amounts incurred by program, in thousands, as of December 31, 2005 and 2004, are as follows:

<u>Program</u>	<u>2005</u>	<u>2004</u>
<u>EVT (Efficiency Vermont)</u>		
Business Existing Facilities	\$ 4,054	\$ 3,601
Business New Construction	2,700	2,680
Customer Credit	225	235
Business Initiatives	1,577	1,212
Energy Efficient Products	1,989	2,201
Residential New Construction	1,588	1,414
Residential Existing Buildings	2,263	2,087
 <u>BED (City of Burlington Electric Department)</u>		
Business Existing Facilities	268	235
Business New Construction	234	250
Residential New Construction	97	48
Residential Existing Buildings	120	113
Energy Efficient Products	116	115
 Total	 <u>\$ 15,231</u>	 <u>\$ 14,191</u>

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 3- ADMINISTRATIVE COSTS (In Thousands)

General costs incurred by the VEEUF relating to the energy programs as of December 31, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
General Administration	\$ 498	\$ 484
Information Technology	498	477
Customer Credit Net Pay Option	572	330
Monitoring and Evaluation	754	120
Contract Administration	135	131
Fiscal Agent	49	50
Audit	14	15
EEU Advertising	1	5
Total	<u>\$ 2,521</u>	<u>\$ 1,612</u>

Pursuant to the contract between the Vermont Public Service Board and the Vermont Energy Investment Corporation, the VPSB proposed a performance-based award program for VEIC based on achievement of certain performance benchmarks designed to promote energy efficiency in the State of Vermont. The performance measurements span a period of three years from 2003 to 2005 with a total award for the three-year period potentially amounting to \$1,280. Maximum awards which could be remitted amount to \$410, \$410 and \$460 for the years 2003, 2004 and 2005, respectively.

The maximum contribution of \$410 has been accrued in 2004 and 2003, respectively, and is included under Administrative Costs. VEIC's achievement of contract performance benchmarks for 2003 through 2005 has been evaluated and the actual award of \$1,280 was approved for payment to VEIC in June 2006.

NOTE 4 - NECA SERVICES CONTRACT

As stated in the Contract between the VPSB and NECA Services, NECA Service is reimbursed under a fixed amount each fiscal year plus any allowable variable expenditures, as defined. Such variable costs include any trips to Montpelier, Vermont, in excess of one time per three years, and other reasonable and necessary expenditures incurred by NECA Services in performance of services, including payments to an independent accountant for annual audit, extraordinary legal work provided by external counsel, taxes, application fees, licensing fees, and similar expenditures. For the year ended December 31, 2005, variable expenditures were \$14,221 and the fixed amount totaled approximately \$42,790. Batchelder Associates, PC had variable expenses of \$4,029 and a fixed payment amount of \$2,500 for work related to the fiscal agent transition and the last two months of the fiscal year. For the year ended December 31, 2004 NECA Services's variable expenditures were approximately \$15,000 and the fixed amount totaled approximately \$50,000.

VERMONT ENERGY EFFICIENCY UTILITY FUND
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005

NOTE 5 - INCOME TAXES

These financial statements present the activities of the VEEUF. The activities of the VEEUF are tax-exempt since the VEEUF is a special reserve fund of the State of Vermont, and therefore not subject to federal or state income taxes or sales, use, gross receipts or other taxes. As such, no provision for such taxes has been reflected in the accompanying financial statements.

NOTE 6 - OTHER TAXES

One-half percent of assessments collected in 2005 is payable to the home weatherization assistance trust fund. Home weatherization assistance trust fund disbursements are made quarterly. Also, one-half percent of assessments collected in 2005 is payable to the gross receipts tax fund, which is paid annually.

As of December 31, 2005 and 2004, the following was payable to the tax funds (In Thousands):

	<u>2005</u>	<u>2004</u>
Home Weatherization Assistance Trust	\$ 39	\$ 32
Gross Receipts Tax	<u>106</u>	<u>88</u>
Total	<u>\$ 145</u>	<u>\$ 120</u>

Expenditures (In Thousands) related to the years ended December 31, 2005 and 2004, amounted to:

	<u>2005</u>	<u>2004</u>
Home Weatherization Assistance Trust	\$ 92	\$ 75
Gross Receipts Tax	<u>92</u>	<u>75</u>
Total	<u>\$ 184</u>	<u>\$ 150</u>

NOTE 7 - CONCENTRATION OF CREDIT RISK

The Fund maintains its cash balances at several financial institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation up to \$100,000. Balances at several institutions exceeded the insurable limit at December 31, 2005. Since the Fund maintains its cash balances at high quality credit institutions, it does not believe it is exposed to any significant credit risk on its cash balances.